

VZCZCXYZ0002  
RR RUEHWEB

DE RUEHDG #1611/01 2912039  
ZNR UUUUU ZZH  
R 172039Z OCT 08  
FM AMEMBASSY SANTO DOMINGO  
TO RUEHC/SECSTATE WASHDC 1590  
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE  
RUEHCV/AMEMBASSY CARACAS 0937  
RUEHPU/AMEMBASSY PORT AU PRINCE 4867  
RUEHSP/AMEMBASSY PORT OF SPAIN 1933

UNCLAS SANTO DOMINGO 001611

SIPDIS  
SENSITIVE

E.O. 12958: N/A  
TAGS: [ENRG](#) [ECON](#) [EINV](#) [DR](#)  
SUBJECT: ELECTRICITY GENERATORS PREDICT A DARK DECEMBER IN  
THE DR

REF: A. SANTO DOMINGO 1133  
[1](#)B. SANTO DOMINGO 1184

[1](#)1. (SBU) SUMMARY. A fiscal crisis in the government is causing the GoDR to withhold payments to power generators who are cutting generation capacity as a result of not being able to pay for fuel shipments. As the mostly government-owned electricity distributors fall into further arrears with privately-owned power generators, two generating companies advised EmbOffs that they are unable to purchase fuel to meet contracted production levels. Compania de Electricidad de San Pedro de Macoris (CESPM) has already ceased production in response to non-payment and its parent company, U.S.-owned BasicRD, intends to file a claim to activate a sovereign guarantee. AES, the country's largest provider, has cancelled one of two remaining natural gas orders for the rest of the year and advised the Dominican Corporation of State-Owned Electricity Companies (CDEEE) that it will cut back production by 20 to 30 percent. AES President Marco de la Rosa also told the DCM that the GoDR has approached him with plans to use the company's natural gas facility to import gas from Venezuela under the Petrocaribe agreement.  
END SUMMARY.

-----  
No payments, no power  
-----

[1](#)2. (U) The government subsidizes the consumption of electricity through disbursements to the three main distributors (the state-owned EDE Sur and EDE Norte as well as ESE Este, of which the Trust Company of the West owns 50 percent plus 1 and the government owns the rest). At the beginning of the year, the GoDR had budgeted USD 600 million for the subsidy for 2008. However, this amount was inadequate to meet the needs of the system in the face of rising oil prices. Estimates for the subsidy for the year quickly rose to close to USD 1.2 billion, with the government saying in July that it would not be able to cover that amount and the sector would have to make up the shortfall.

[1](#)3. (U) As of October, the electrical distribution companies have failed to pay the generators for July invoices, prompting concern among the generators that the government's ability to fund the subsidy to the sector has run dry. According to EDE Este General Manager Jose Marinas Fernandez, since January, the government has provided only the amount they originally budgeted to subsidize the sector, despite the fact that the amount the distributors owe to the generators has vastly increased. Marinas told Econoff that while rising fuel prices caused electricity generation rates to skyrocket, the price to the consumer remained unchanged, per government mandate. (Although National Energy Commission officials told EconOff in August that the government was considering a 15 percent rate hike, the price has yet to rise.) Marinas said

that EDE Este has only been able to pay about USD 12 million to the generators from its monthly cash revenue of around USD 25 million, while the total bills are much higher, peaking at over USD 50 million in August.

14. (SBU) Marinas noted that while the summer fuel price surge is to blame for the size of the 2008 debts, the problem started with a government request to increase generation during the election period. He said that EDE Este is normally expected to satisfy 85 percent of demand, using scheduled blackouts in some areas to limit consumption. Yet in the two months running up to the May 16 election, the GoDR pushed market players to satisfy 100 percent of demand. Despite the higher costs that this push implied, the government did not provide additional funds and instead let debt accrue with the generators. Even after the election, when programmed blackouts returned, the high fuel costs meant that prices stayed high and the distributors fell even farther behind. As a result, the distributors now owe USD 340 million to the private generators for this year. Marinas added that the government had assured the generators that it would offer a plan by August to repay USD 864 million in debt from previous years, of which USD 214 is owed to the private generators, but as of yet they have not offered any proposals.

15. (SBU) Given the lack of payment by the distributors, the generators lack the liquidity to purchase the fuel they need to supply the grid. BasicRD shut down operations at its two plants on September 12, citing nonpayment of past invoices. A government payment in early October to the generator stipulated that it restart its EGE Haina plant, but EGE Haina is operating only at a low capacity due to limited cash to buy fuel; its CESPM plant remains off-line. BasicRD CEO

Roberto Herrera told Econoff that CESPM is panning to file a claim to invoke a sovereign guarantee in its contract with the distributors. If the government goes into default of this guarantee, he said that the company's primary lender, Citibank, would likely ask BasicRD to cancel the contract, which could have drastic consequences for the Dominican Republic's credit rating.

16. (SBU) Meanwhile, AES, the nation's largest provider, cancelled its December gas shipment, which represents 20 percent of the total fuel purchase for 2008 at the 304-MegaWatt AES Andres plant. AES President Marco de la Rosa told the DCM that AES Andres has already reduced generation by 20 to 30 percent in light of the adjusted fueling schedule. Reducing output will require breaking the company's contract with the distributors, and De la Rosa said his company was ready to take that step, citing defaulted invoices. He also noted that the AES home office had instructed him to cease all new investments in the country, which will mean cancelling a natural gas pipeline that would have enabled BasicRD to convert the CESPM plant to convert from diesel to natural gas.

-----  
Government responds with offer of partial payment  
-----

17. (U) On October 15, CDEEE Executive Vice President Radhames Segura announced that the government would provide USD 100 million in payments to the generators on October 25, while the distributors would provide an additional USD 16 million. However, Marinas told Econoff that Segura had not consulted his company regarding this latter sum and that EDE Este would not be able to contribute any funds to the October 25 payment. De la Rosa noted that this sum was a small amount that would be shared among all of the generators, while the debt owed to AES (USD 150 million for 2008 invoices and USD 80 million of the frozen debt) is more than double the total.

-----  
Light at the end of the tunnel?  
-----

18. (SBU) Herrera told Econoff that he believes the

consequences of further non-payment would be devastating for all involved, especially Dominican electricity consumers. He therefore expects that the government will ultimately find the cash to pay the generators, as it has in past months. He noted that the CDEEE paid USD 5 million of CESP, USD 26.7-million July invoice and has yet to make a dent in the USD 30-million August bill. Herrera added that the bright side to the company's recent generation cutbacks is that the September invoice from CESP is just USD 10 million. He said he expected to normalize the running debt by November.

¶9. (SBU) De la Rosa did not share the same level of optimism, noting that this was the gravest situation he had faced since taking the reigns at AES Dominicana last year, calling it &critical. He said that with the cutbacks in generation, most homes in the Dominican Republic would be without power for at least 8 hours every day through the end of the year.

-----  
TCW arbitration case moves forward  
-----

¶10. (SBU) Marinas told Econoff that he does not believe that CDEEE has treated EDE Este differently than the fully state-owned distributors in terms of receiving its share of the subsidy. TCW, the company that owns 50 percent plus 1 of EDE Este, and its parent company, Societe Generale, have filed arbitration claims against the government under both the France-Dominican Republic Bilateral Investment Treaty and CAFTA-DR alleging that the GoDR's treatment of its investment has greatly diminished the value of EDE ESTE. The claim seeks USD680 million in damages. Marinas told EconOff that he believes Segura, the head of CDEEE, who has not hid his disdain for TCW in recent press interviews, is attempting to turn public sentiment against TCW while strangling the company's finances in the hopes that it will give up on its investment and leave the country. He added that while the other distributors could withstand nonpayment from the government because their debt is public debt, a private company could not afford to operate without accounting for its broad loss margin.

¶11. (SBU) Marinas complained to Econoff of government harassment coming from many fronts and said that while a few

key figures in the Fernandez administration, including Economy, Planning and Development Minister Temistocles Montas, disagree with Segura's approach, no one has proved willing to cross the CDEEE official. Marinas accused even the judiciary of being prejudiced against TCW, recounting how when the company sued a disgruntled customer for literally breaking down its door, the judge sided with the customer and called CDE Este & a bunch of crooks. It was this prejudiced judiciary and the administration's influence over judges, he said, that led TCW to file for international arbitration. On September 19, an arbitration tribunal in New York overruled the GoDR's jurisdictional objections to the proceedings, setting the stage for arbitration to proceed to a final hearing in 2009.

-----  
GoDR seeking to expand Petrocaribe to natural gas  
-----

¶12. (SBU) AES President De la Rosa also told the DCM that a group of 10 officials from Petroleos de Venezuela (PDVSA) recently visited the company's natural gas import facilities east of Santo Domingo as they explore the possibility of selling natural gas to the Dominican Republic under the Petrocaribe agreement. Such a possibility is likely linked to talk of a Venezuelan-funded gas pipeline from the Dominican Republic into neighboring Haiti. De la Rosa said AES is concerned about the proposal, noting that Venezuelan President Hugo Chavez has been explicit in stating that Petrocaribe purchases cannot go through private companies. Referring to rumors that the GoDR's recent decision to acquire full ownership of the country's sole oil refinery

was motivated by a desire to increase purchases under Petrocaribe, he said AES is worried that involving the AES port in Petrocaribe could disrupt the company,s work. He noted that the GoDR has promised that any Petrocaribe activity at the AES port would prove beneficial to the company, although he did not seem convinced by the pledge.

-----  
COMMENT  
-----

¶14. (SBU) Crises in the electricity sector are relatively frequent in the Dominican Republic, where government involvement in the sector has exacerbated problems and created an inefficient market. But it appears that with defaults on July invoices, the generators have reached a breaking point and will now turn off the lights. This may prompt the government to pay its debts, but it remains to be seen whether the power rationing or the TCW arbitration case will lead to any substantive long-term improvements in the dysfunctional sector. Despite the mounting debts and growing blackouts, Segura appears to retain the unwavering support of the President. Neither Segura nor anyone else in the Fernandez administration have given much more than lip service to long-term solutions to the sector,s shortcomings. The passage of a law criminalizing electricity theft was an important achievement, but it remains unenforced. A proposed 15 percent increase in electricity rates paid by consumers could make a small dent in the disparity between costs and earnings for distributors, but it must overcome popular opposition in order to go into effect. END COMMENT.  
FANNIN